

## Message Text

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ACTION NEA-12

INFO OCT-01 ISO-00 PM-07 CIAE-00 INR-10 NSAE-00 RSC-01

NSC-07 SP-03 SS-20 EB-11 COME-00 TRSE-00 OMB-01 L-03

EUR-25 MC-02 AID-20 DRC-01 /124 W

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R 280905Z APR 74

FM AMEMBASSY KUWAIT

TO SECSTATE WASHDC 9405

SECDEF WASHDC

INFO CSA WASHDC

CNO WASHDC

USCINCEUR

CDR AMC ALEX VA

CDR MICOM REDSTONE ARS AL

S E C R E T KUWAIT 1642

EO 11652: GDS

TAGS: MASS, KU

SUBJ: NEGOTIATIONS WITH GOK RE I-HAWK AND TPS-32 RADAR

REF: KUWAIT 1619

SUMMARY: IN MOST RECENT NEGOTIATIONS WITH EMBASSY TEAM RE I-HAWK AND TPS-32 RADAR, GOK MINISTRY FINANCE AND OIL (MFO) FOCUSED ON US LETTER OF OFFER (L/O) PROCEDURES. MGO REP FOUND FAULT WITH ESTIMATED PRICING, FACT THAT TECHNICAL SUPPORT AND TRAINING NOT INCLUDED IN SAME PACKAGE AND LACK OF PROVISIONS AGAINST AGENTS' FEES. WE TOLD THAT GOK FINANCE TEAM LATER MET WITH MINDEF SHAIKH SAAD WHO ACCEDED TO THEIR DEMANDS FOR FIXED PRICE, ALL-INCLUSIVE CONTRACT, WITH SPECIAL AGREEMENT AGAINST AGENTS' FEES, AND STATED IF USG COULD NOT ACCOMMODATE GOK ON THESE POINTS, GOK WOULD NEGOTIATE WITH COMPANIES. AMBASSADOR'S DIRECT APPROACH TO MINDEF TO EXPLAIN IMPLICATIONS OF DECISION ELICITED MINDEF STATEMENT THAT PROBLEM WAS WITH MINISTRY OF FINANCE, NOT DEFENSE. AMBASSADOR THEREFORE EXPECTS MAKE FURTHER PITCH TO MINFIN AND OIL ATIQUI IN NEAR FUTURE. END SUMMARY

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1. FOLLOWING MESSAGE PROVIDES BACKGROUND TO GOK DECISION REPORTED REFTEL NOT TO SIGN US LETTERS OF OFFER ON I-HAWK AND TPS-32 RADAR: ON APRIL 17 USG I-HAWK AND TPS-32 RADAR TEAMS COMPLETED CONSULTATIONS WITH GOK MILITARY AND KUWAITIS ADVISED THEY WERE SATISFIED ON ALL POINTS. IN ABSENCE AMBASSADOR FROM KUWAIT, CHARGE MCCLELLAND CONTACTED MINDEF SHAIKH SAAD AND INFORMED HIM TEAM HAD COMPLETED WORK AND WOULD HAVE TO LEAVE VERY SHORTLY. MINDEF RESPONDED HE WOULD CONTACT GOK TEAM LEADER BUT COULD MEET NO SOONER THAN APRIL 20 TO SIGN L/OS.

2. EMBASSY WAS ADVISED APRIL 20 THAT FINAL NEGOTIATIONS WOULD BEGIN APRIL 21 AT 5 P.M. AT MIN FINANCE AND OIL OFFICES. TWO OFFICIALS FROM MFO APPEARED WITH MOD REPS AND SEVERAL POINTS DISCUSSED, NONE OF WHICH WAS CRUCIAL. ON FOLLOWING DAY NEGOTIATIONS FOR FIRST TIME INCLUDED MFO ADVISER ON BANKING AND INVESTMENTS, KHALID ABU SU'UD, ALONG WITH OTHER MFO AND MINDEF OFFICIALS. IT APPEARED ABU SU'UD HAD NEVER SEEN L/OS BEFORE AND HE ENTIRELY UNFAMILIAR WITH USG PROCEDURE. HE SPECIFICALLY NOTED ESCALATION IN PRICES OF SUCCESSIVE LETTERS OF OFFER AND OBJECTED TO FACT THAT PRICES WERE ALL ESTIMATED WITH NO GUARANTEED CEILING. HE NOTED THAT LETTERS OF OFFER FOR TECHNICAL SUPPORT AND TRAINING WERE NOT FINALLY WORKED OUT AND MAINTAINED GOK COULD NOT ACCEPT CONTRACT WITHOUT ALL ASPECTS COVERED AT ONE TIME. ABU SU'UD THEN TURNED TO AGENTS' FEES AND SAID THAT SINCE PRICE OBVIOUSLY INCLUDED AGENTS' FEES, THEY ITEM WOULD HAVE TO BE REMOVED AND PRICES REDUCED. HE FURTHER SAID THAT GOK WOULD REQUIRE AN AGREEMENT, EITHER AS PART OF LETTERS OF OFFER OR A SIDE AGREEMENT, WHICH IN EFFECT WOULD STATE THAT NO AGENT WOULD RECEIVE ANY FEES OF ANY KIND ON CONTRACT AND THAT IF THEY DID, ENTIRE CONTRACT COULD BE VOIDED AND PENALTY CHARGES ASSESSED.

3. ON EACH POINT USG TEAM CONSISTING OF CHARGE, COLONEL HENRY AND RAYTHEON REPRESENTATIVE MCCARTHY, EXPLAINED USG PROCEDURES AND HOW THEY HAD BEEN USED IN THE PAST ALONG WITH ADVANTAGES OF L/O PROCEDURE. ABU SU'UD, HOWEVER, CLEARLY INDICATED HIS DISSATISFACTION WITH ANY SUCH ARRANGEMENTS (IN PARTICULAR THE ESTIMATED COSTS VS FIXED PRICE ISSUE) AND SAID THAT HE WOULD HAVE TO REPORT HIS FINDINGS TO HIGHER AUTHORITY.

4. RE AGENTS' FEES - COLONEL HENRY OFFERED TO INSERT CLAUSE IN  
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LETTERS OF OFFER STIPULATING THAT COSTS FOR AGENTS' FEES SHALL BE CONSIDERED AS AN UNALLOWABLE ITEM OF COST UNDER THIS CONTRACT. ABU SU'UD SAID THIS WHOLLY INADEQUATE TO MEET KUWAITI REQUIREMENTS. COLONEL HENRY EXPLAINED THAT SINCE CONTRACT WAS BETWEEN USG AND GOK, USG COULD DISALLOW INCLUSION OF AGENTS FEES IN CONTRACTOR COSTS, BUT COULD NOT GUARANTEE TO PREVENT CONTRACTORS FROM PAYING SUCH FEES FROM OTHER COMPANY FUNDS OR CORPORATE PROFITS.

5. ON APRIL 24 KHALID ABU SU'UD TELEPHONED DCM TO SAY GOK NEGOTIATING TEAM HAD MET WITH MINDEF SHAIKH SAAD APRIL 23 AND SHAIKH SAAD HAD GIVEN THE FOLLOWING INSTRUCTIONS:

1. GOK REQUIRES THAT ANY AGREEMENT FOR SUPPLY OF EQUIPMENT ALSO INCLUDE ALL ASPECTS OF TECHNICAL SUPPORT AND TRAINING (NOTE: US L/O ON I-HAWK GAVE ONLY UNDERTAKING TO PROVIDE LETTER OF OFFER ON TECHNICAL SUPPORT, TRAINING AND OTHER GOK REQUIREMENTS).

2. GOK WILL SIGN AGREEMENT FOR EQUIPMENT ONLY ON BASIS OF FIXED PRICES, NOT ESTIMATED PRICES.

3. IF USG NOT RPT NOT ABLE TO GIVE FIXED PRICE, THEN GOK WILL NEGOTIATE DIRECTLY WITH COMPANIES UNDER US SUPERVISION.

4. IN ANY CASE, GOK WILL REQUIRE AGREEMENT WITH COMPANIES STIPULATING THAT THEY WILL NOT PAY AGENTS' FEES ON THESE CONTRACTS (NOTE: MOD HAS SUPPLIED US WITH DRAFT AGREEMENT ABOUT AGENTS' FEES). WHEN DCM POINTED OUT TO ABU SU'UD THAT MANY US COMPANIES WERE INVOLVED IN SUPPLY OF THIS EQUIPMENT, HIS RESPONSE WAS THAT NORMAL PROCEDURE WAS FOR ONE COMPANY TO SIGN ON BEHALF OF ALL OTHER COMPANIES.

6. AMBASSADOR, WHO RETURNED KUWAIT APRIL 21, REQUESTED MEETING WITH SHAIKH SAAD WHICH TOOK PLACE APRIL 25. RESULTS OF THIS MEETING OUTLINED REFTEL.

7. WE HAVE INFORMED RAYTHEON AND ITT GILFILLAN REPS AND THEY HAVE ASSURED US THAT SOME RESPONSE WOULD BE FORTHCOMING WITHIN A WEEK FROM THEIR COMPANIES REGARDING FEASIBILITY MAKING COMPANY OFFERS DIRECTLY TO GOK.

8. COMMENT: IT WAS OBVIOUS DURING LATEST MEETINGS THAT GOK MINDEF  
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HAD NEVER BEFORE DISCUSSED LETTERS OF OFFER OR POSSIBLE PROBLEMS ARISING THEREFROM WITH MFO, DESPITE FACT MFO APPROVAL APPARENTLY NECESSARY, AT LEAST ON LARGE MILITARY CONTRACTS. ABU SU'UD REACTED AS INTELLIGENT FINANCIAL EXPERT WHO HAD NO EXPERIENCE WITH USG PROCEDURES. HE INDICATED HIS BELIEF THAT OUR PROCEDURES COULD NOT BE APPROVED UNDER GOK REGULATIONS AND THAT AT VERY LEAST THEY INVOLVED MATTERS THAT COULD ONLY BE DECIDED AT MINISTERIAL LEVEL.

9. EMBASSY HAS NOT YET ABANDONED HOPE IN GOVERNMENT-TO-GOVERNMENT APPROACH, AND AMBASSADOR WILL DISCUSS SUBJECT WITH MIN OF FINANCE AND OIL ATIQI. IF GOK DECIDES TO DEAL DIRECTLY WITH US COMPANIES ON MAJOR ARMS PROCUREMENT, FURTHER DELAYS IN ESTABLISHMENT OF US MILITARY PROGRAM IN KUWAIT - AS WELL AS HIGHER COSTS TO GOK AND LATER AVAILABILITY DATES - MUST OF COURSE BE EXPECTED.

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## Message Attributes

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